



September
2008

California Postsecondary Education Commission

Higher Education Budget Update, 2008-09

ITEM 4

Summary

On Tuesday, Sept 23, 2008, the Governor signed into law the 2008-09 Budget Act for the State of California. The budget authorizes spending of \$144.5 billion in overall general purpose funds, \$103.4 billion of this from the State General Fund and the remainder from related special funds. Each of these totals are only fractionally higher than prior year spending. The Governor vetoed \$510 million of general fund spending from the budget approved by the Legislature. Display 1 shows State General Fund spending by program category.

DISPLAY 1 State General Fund Expenditures for 2008-09, as Adopted
(dollars in millions)

<u>State Program Areas</u>	<u>2007-08</u>	<u>2008-09</u>	<u>Dollar Change</u>	<u>Percent Change</u>
K-12 Education	\$42,233	\$41,579	-\$654	-1.55%
Higher Education	11,819	12,113	294	2.49%
Health, Human Services	29,726	31,121	1,395	4.69%
Corrections, Rehabilitation	10,209	10,342	133	1.30%
Business, Trans., Housing	1,502	1,628	126	8.39%
Resources, Environment	2,062	1,913	-149	-7.23%
State, Consumer Serv.*	702	661	-41	-5.84%
General Government	1,177	228	-949	--
<u>Leg., Judicial, Exec.</u>	<u>3,903</u>	<u>3,816</u>	<u>-87</u>	<u>-2.23%</u>
Totals	\$103,333	\$103,401	\$68	0.07%

* Includes Labor and Workforce Development.

NOTE: Both K-12 and community colleges receive substantial local revenues that are not shown here.

Source: California Department of Finance.

Significant Budget Actions

The 2008-09 budget, includes major policy changes and is based on actions to be taken

by the voters. Display 2 below summarizes some of the more important components of the budget.

Display 2 Major Components of the 2008-09 State Budget

- ✓ "Rainy Day" Fund – Increases the size of the "Budget Stabilization Account" (BSA) to 12.5 of General Fund expenditures (would be approximately \$13 billion in 2008-09). Requires annual transfers of 3% of General Fund revenues into the BSA. These funds could only be drawn down during economic downturns, during which times these transfer would be suspended.
- ✓ Mid-year spending cuts – If anticipated revenues are below specified levels, the Director of Finance can reduce state operations budgets by up to 7% during the year and suspend cost-of-living adjustments, rate increases or other state portions of costs of local program, as specified in the Budget Act.
- ✓ State Lottery – Proposes a statewide ballot initiative that would bond against future lottery proceeds with the funds used pay off current debt and to fund the BSA. It is estimated that this measure would generate \$5 billion in 2009-10. This measure would also make changes to current law governing the lottery with the goal of improve its performance and generating increased lottery revenues.
- ✓ Revenue increases – Makes various changes to State tax laws that are projected to generate \$1.9 billion for the just-concluded 2007-08 fiscal year, \$6.1 billion in 2008-09, and \$1.6 billion in 2009-10. Most of these additional revenues result from accelerated collection of future anticipated tax receipts.

The Higher Education Budget

The 2008-09 General Fund budget for California higher education is \$12.1 billion, 3.4% (\$294 million) above 2007-08 levels. Display 3 summarizes each segment's State General funding. The budget provide no enrollment growth funding, leaving UC and CSU with over-enrollments (students for whom they receive no marginal cost funding). UC is projected to be 4,000 FTE students overenrolled and CSU 8,000 FTE students. The budget funds a 2% increase in CCC enrollment.

The budget incorporates the CSU and UC's adopted resident student fee increases of 7.4% at UC and 10% at CSU for undergraduates. Resident student fees in the community colleges remain at the current level of \$20 per unit. The Budget includes "Budget Balancing Reductions" (cuts to projected amounts needed to fund caseload increases) proposed in January. These 10% reductions are \$233.4 million for UC, \$215.3 million for CSU, and similar portions for CPEC, CSAC, CCC state operations, and Hastings College.

The budget funds few new higher education initiatives, but continues funding for several recent new initiatives in the community colleges. These include last year's intersegmental initiative to increase the state's nursing supply, the "Career Technical Education" initiative, and a program to improve the success of under-prepared community college students. The budget fully funds Cal Grant Entitlements awards and authorizes 7,200 new APLE (Assumption Program of Loans for Education) warrants.

Other Budget Provisions

K-12/CCC Proposition 98 spending in 2008-09 is \$58.1 billion, an increase of \$1.5 billion (2.7%) over 2007-08. While the Governor line-item vetoed more than \$200 million from various social services programs, year-to-year State spending in these programs increases by nearly 5%. The budget continues the Governor's Executive orders that are projected to save \$340 million during the fiscal year.

Potential Budget Issues

The state and national economies continue to struggle and tax collections have come in below projected levels thus far this fiscal year. The budget actions generate an estimated deficit going into the next year of between \$1.5 billion and \$7 billion, depending upon the outcome of the voter initiatives. In addition, some of the tax changes in the budget generate current year revenues at the expense of future years. One tax changes that allows corporations to exchange tax credit among related companies is expected to lower tax revenues in the out-years. In addition to the possibility that actual spending in some program areas (such as State fire protection) will be greater than budgeted levels, the receiver for the federal courts that oversees large portions of the State's prison system is seeking up to \$8 billion from the State for court-ordered reforms. All these factors, coupled with current economic circumstances and increasing demands for public services, increase funding pressures on future-year budgets.

Web links to additional information on the 2008-09 State budget:

Department of Finance:

<http://www.ebudget.ca.gov/pdf/Enacted/BudgetSummary/FullBudgetSummary.pdf>

DISPLAY 3 Higher Education State General Fund
Expenditures for 2008-09 (dollars in thousands)

Entities	2007-08	2008-09	Dollar Change	Percent Change
CPEC	\$2,209	\$2,005	-\$204	-9.23%
UC	3,259,300	3,250,300	-9,000	-0.28%
Hastings	10,631	10,631	0	0.00%
CSU	2,970,706	2,970,706	0	0.00%
CCC ¹	6,433,700	6,746,200	312,500	4.86%
CSAC	842,887	837,511	-5,376	-0.64%
<u>Other</u>	<u>311,467</u>	<u>399,647</u>	<u>88,180</u>	<u>28.31%</u>
Total	\$13,830,900	\$14,217,000	\$386,100	2.79%

1. CCC totals include local property tax revenues.

2. Includes GO Bond interest and redemptions.

Source: California Department of Finance.